



# **Contract Costing Issues**

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## **Policy Change Notice No. 00-108**

### Summary of Chapter Changes:

It is important that Procuring Contracting Officers (PCOs) and Program Managers be kept apprised of changes in Forward Pricing Rates.

To ensure Program Managers and PCOs are aware of rate changes and related program impacts, ACOs and DACOs administering major weapon program contracts must provide proposed and recommended Forward Pricing Rate information to the PCO and the DCMC Program integrator.

The DCMC Program Integrator will incorporate this information into the monthly Program Assessment Report, which is submitted to the program office.

Information should be provided whenever Forward Pricing Rates change or are **expected** to change.

**Our Focus Today**

## ***Discussion Topics***

- Players (Contracting Officers' Roles)
  - ▢ Emphasis on Overhead Rates
  - ▢ Causes of changes in programs' cost profile
  - ▢ Illustration by Raytheon Corporate Administrative Contracting Officer

# Players

## Cognizant DCMA Contracting Officers

Corporation	CACO/DCE	<i>Pension, Insurance, HOE, Restructuring</i>
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Segment	DACO	<i>Overhead rates</i>
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Program	ACO???	<b>Your focus</b> <b>...but you might not have a “contracts” counterpart</b>
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Contract	ACO	<i>Pricing of assigned contracts (allocation/ allowability of estimated or incurred costs)</i>
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**As a PI, you have multiple corporations, segments, contracts..contracting structure in typical CMO doesn't make you**

# ***Emphasis on Overhead Rates***

## ***First, some background...***

***Direct Cost***--benefits a specific

***contract***  
Examples: manufacturing labor, material, travel, testing, program

***Indirect Cost***--benefits more than one

***contract (or isn't worth charging***

***direct)***  
Examples: supervision of manufacturing labor, H&E, purchasing, low

***Overhead Rate***--way of allocating

***indirect costs to contracts***

***Overhead Pool***--collects similar indirect costs

***Overhead Base***--collects similar direct costs

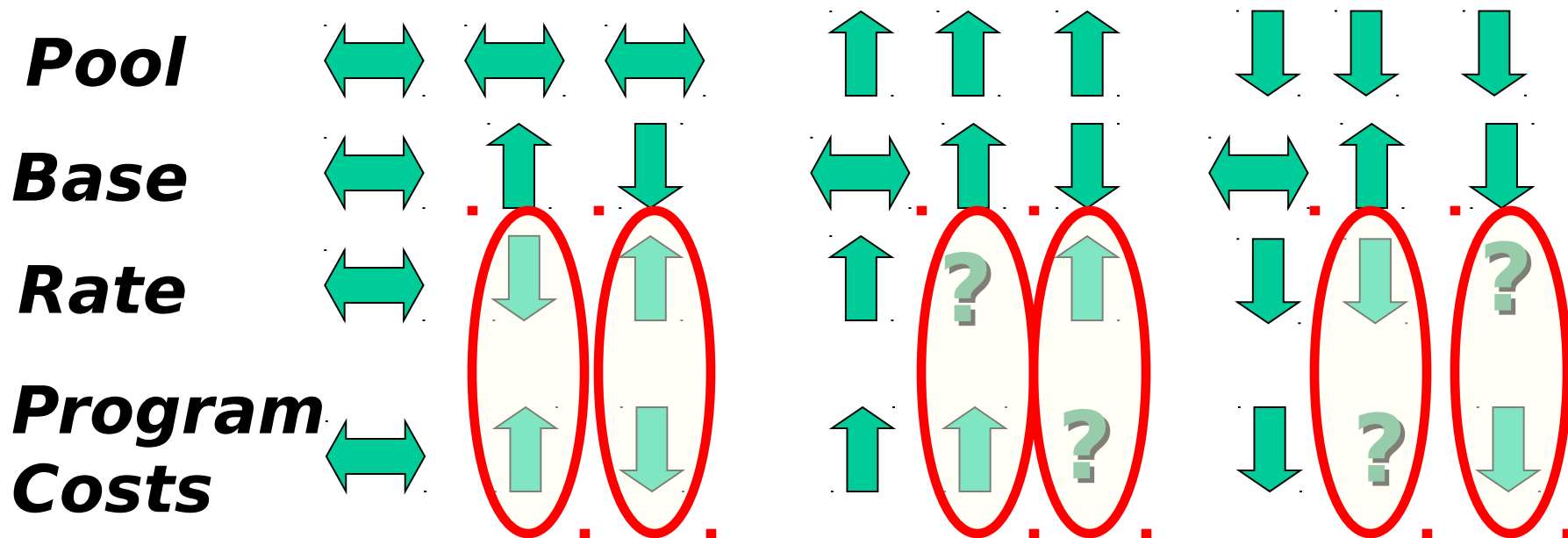
***Disclosure Statement***--describes

***cost accounting structure***

# Emphasis on Overhead

## Rates

### Indirect-Direct Cost Relationship



*A lot of folks focus on the rates...*

*...You need to look at overall program costs*

*You'll have more than 1 rate--some going up, some down. And multiple segments. And lots of subcontractors.*

# ***Emphasis on Overhead Rates***

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***Why didn't you give me a heads up about these rate increases?***

# ***Emphasis on Overhead***

## ***Rates***

***No easy answers - No magic silver bullet***

### ***Overhead Rates are:***

- ***Contractor specific***
- ***Location specific***
- ***Event specific***

### ***However:***

- ***Awareness of contractor's situation***
- ***Awareness of economic trends***
- ***Good communication link with ACO/DACO***



# **Major Drivers for Overhead**

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- ***Restructuring Rate Changes***
- ***Accounting Practice Changes***
- ***Changes in Business Base Projections***
- ***Labor Market Trends***
- ***IR&D Expenses***
- ***Program Problems/Issues***

***The challenge is to be able to quickly assess the rough impact of these factors on individual contracts/programs.***

# **Restructuring - Impact** **on**

## **Anomaly** **Overhead Rates**

- **Must look at total contract/program costs**
- **Must consider contract/program type**

**Savings are both Indirect and Direct**

- **Notional example:**

**Restructuring Costs - \$100M \***

**Restructuring Savings - \$500M \***

**(\$200M Indirect/\$300M Direct)**

**Cost/Saving Ratio - 5/1**

# Restructuring - Impact

**on**

**Post-Merger** **Pre-Merger** **Costs** **Savings**  
**Overhead Rates**

<b>O/H Base</b>	<b>1,000</b>		<b>60</b>
<b>940</b>			

<b>Expense Pool</b>	<b>1,200</b>	<b>20</b>	<b>40</b>
<b>1,180</b>			

<b>Total Costs</b>	<b>2,200</b>	<b>20</b>	<b>100</b>
<b>2,120</b>			

<b>Overhead Rate</b>	<b>120.0%</b>
<b>125.5%</b>	

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